

Embracing Tomorrow

Azerbaijan
3 December 2012

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Global Leader
Government &
Public Services
PwC



Agenda

1. Where do we stand now?

- Competitiveness & Development

2. What lies ahead?

- *Implementing visions and strategies*

3. Trends and emerging industries!

- *New market and industry logic*

4. How do we get there?

- State Owned Enterprises-a vehicle for transformation and innovation
- Moving towards international standards in accounting - IPSAS

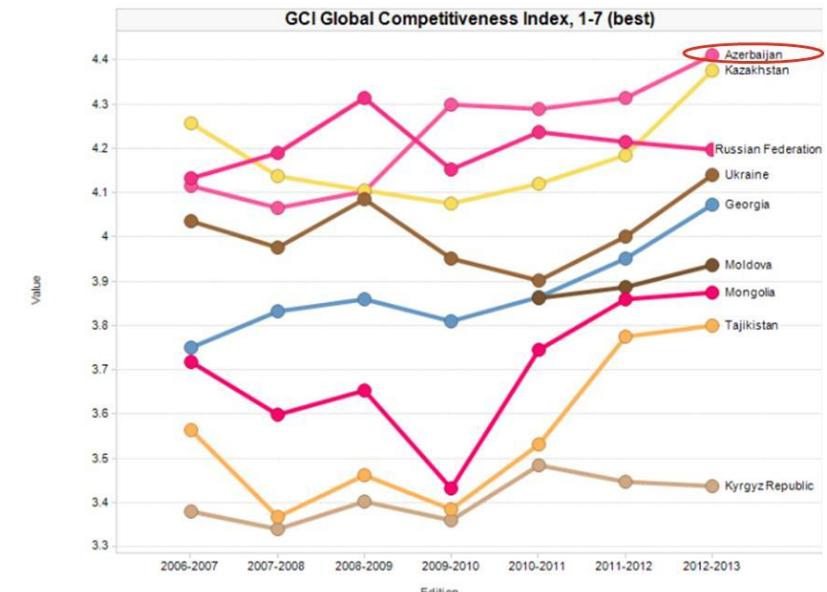
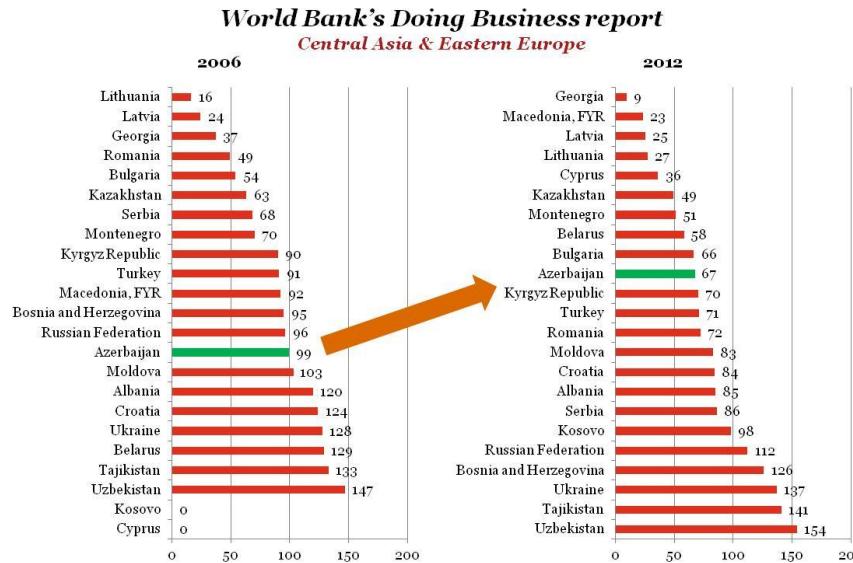
Where do we stand now?

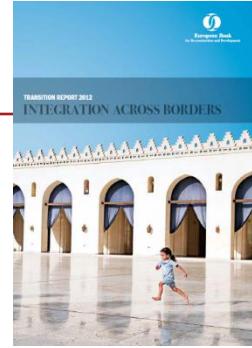
Competitiveness & development

1

Good signs in the sky

- **Marked improvement in rankings and scores in international benchmarking reports**
 - ✓ **World Bank's Ease of Doing Business Ranking:**
from #99 in 2006 to #67 in 2012
 - ✓ **WEF's Global Competitiveness Index Score:**
from **4.11** in 2006/07 to **4.41** in 2012/13
- **Improvements over time and outpacing of Eurasia average in almost every area**





Highlights of the past year

EBRD's Transition Report 2012

- **Expansion of non-oil economy**
- **Economic growth expected to remain subdued**
- **Risks** come mainly from **possible decrease in oil price or extended disruption of oil export flows**
- **Business environment continues to improve**
- **Recapitalisation of state-bank IBA**
- **Several gas transportation routes to Europe being discussed**

Source: European Bank for Reconstruction & Development (EBRD)'s Transition Report 2012

What lies ahead?

Implementing visions goals and strategies...

2

“Azerbaijan – 2020: The Vision of the Future”

Key strategic vision

*To take into consideration the existing opportunities and resources to **achieve sustainable economic growth and social prosperity** in Azerbaijan, ensure **effective state governance**, rule of law and complete exercise of all human rights and freedoms, and reach a development stage characterised with an **active status of civil society** in the country's public life.*

Goals by 2020

More than doubling of GDP per capita to reach \$13,000

Essential communications & infrastructure available in rural areas

Becoming a “high average income country” with “high human development”

Minimum unemployment rate

From regional leader to internationally competitive player

Regional commercial centre with per capita volume of non-oil exports of \$1,000

Key points to achieving Azerbaijan 2020

*Eliminate
dependence from
oil and gas*

*Diversify the
economy*

*Integrate into
global economy*

Linked to global trends and emerging opportunities...

Trends and emerging industries!

New market and industry logic

3



Some Global Tera Trends...

Globalization → Glocalization

Financial / Economic crisis → Debt, deficit, economies under pressure

Urbanization → Urbanomics, territorialization, rurbanization, “smartcitzation”

Competition → Co-opetition

Amalgamation (spheres of society, industries, etc.)

New Technologies → ICT, E mobility, smart grids, E-Health etc.

Knowledge & Experience society

Individualization / Personalization

Climate change / Sustainability → Sustainagility

Demographic changes → Aging and...

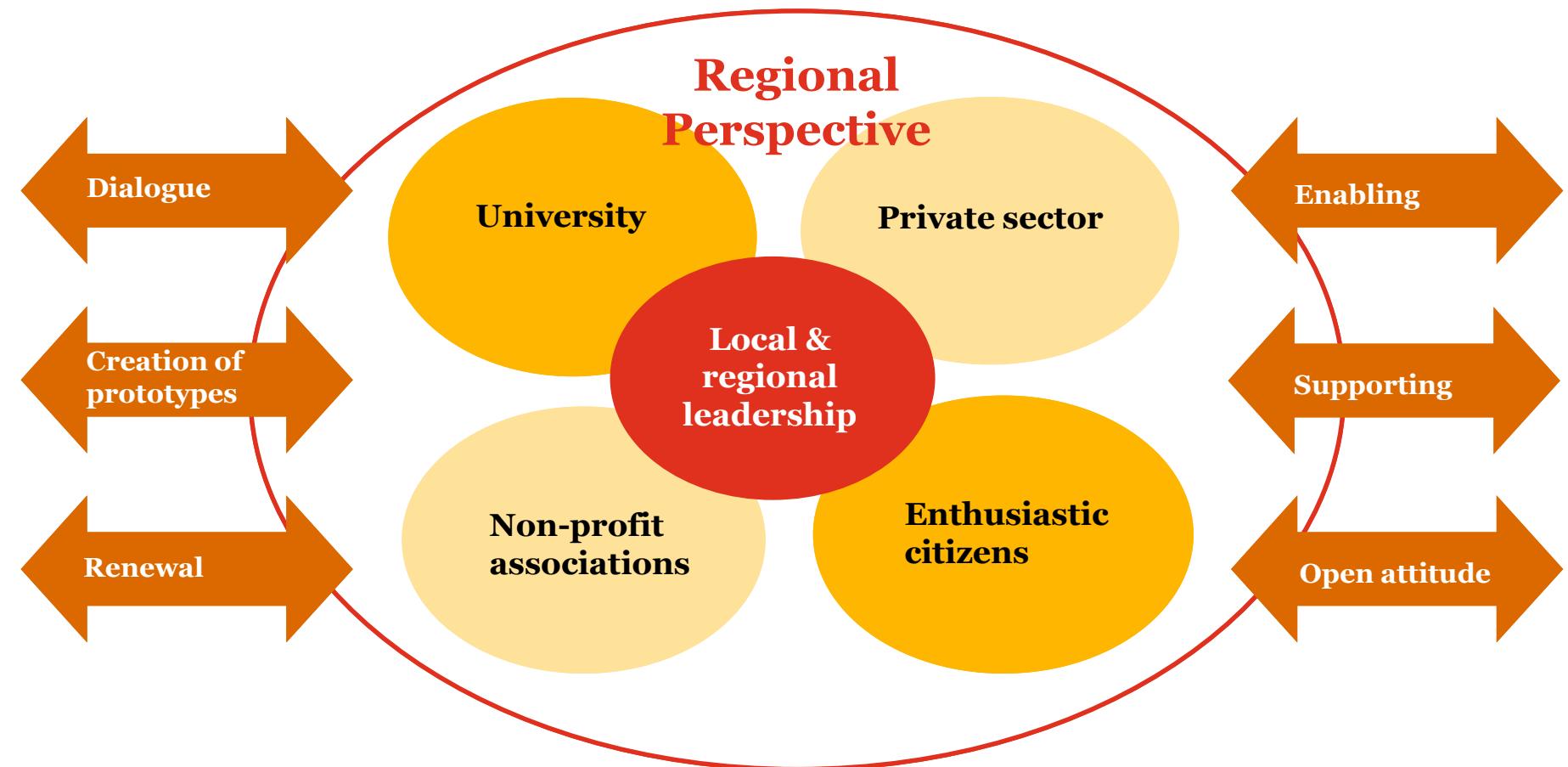
From Local to Global, Competition to Collaboration



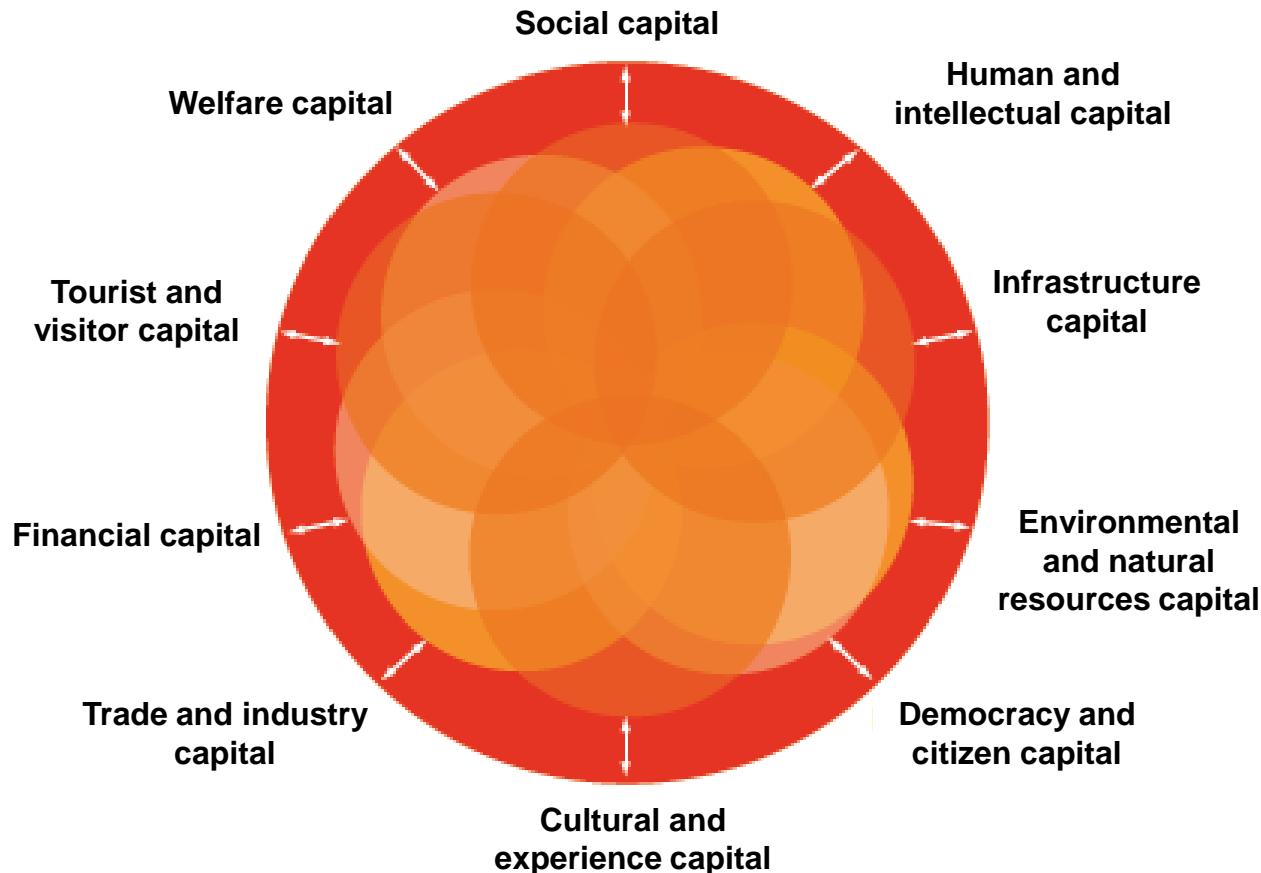
Increasing global competition, with nations and cities competing for...



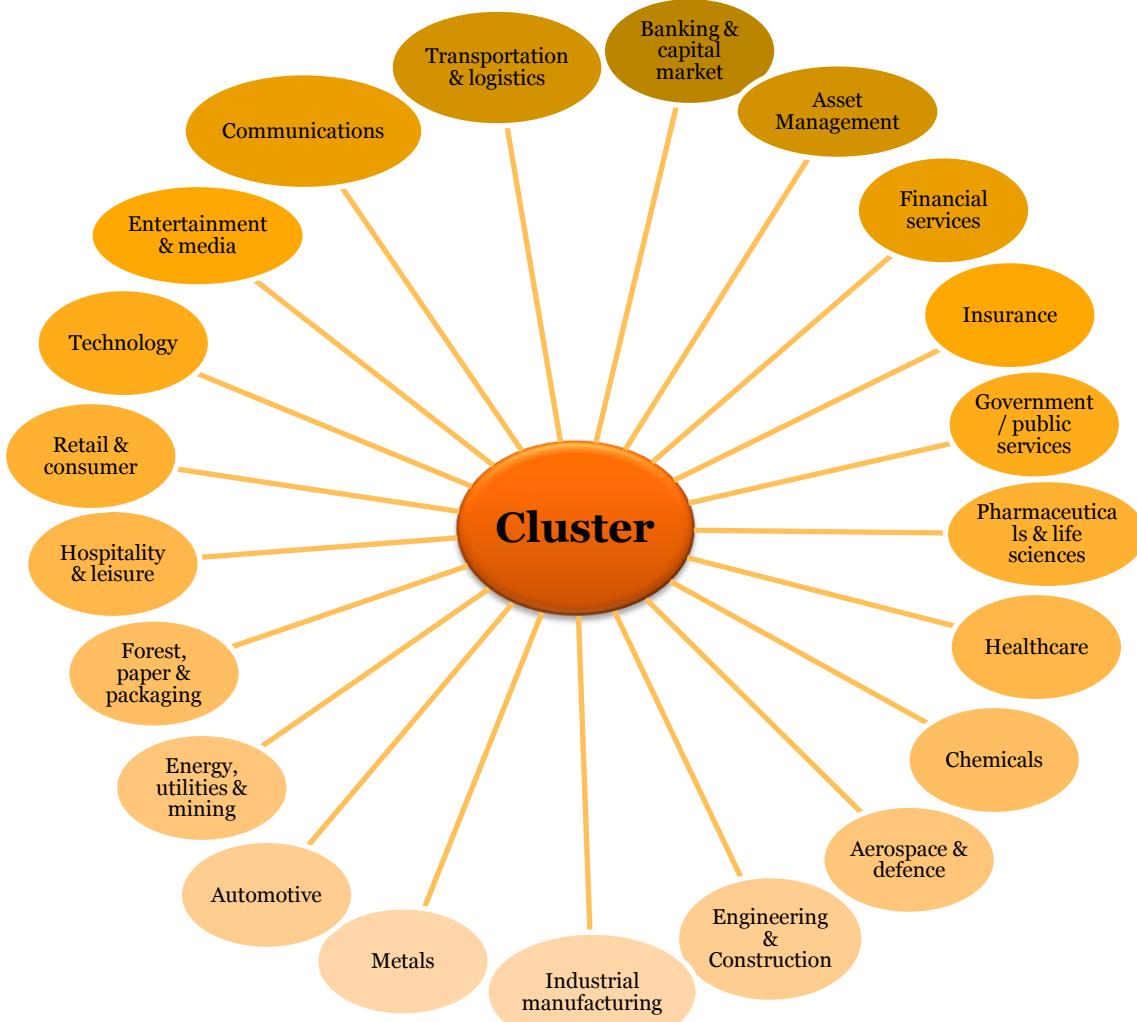
Cross collaboration between different sectors of society...



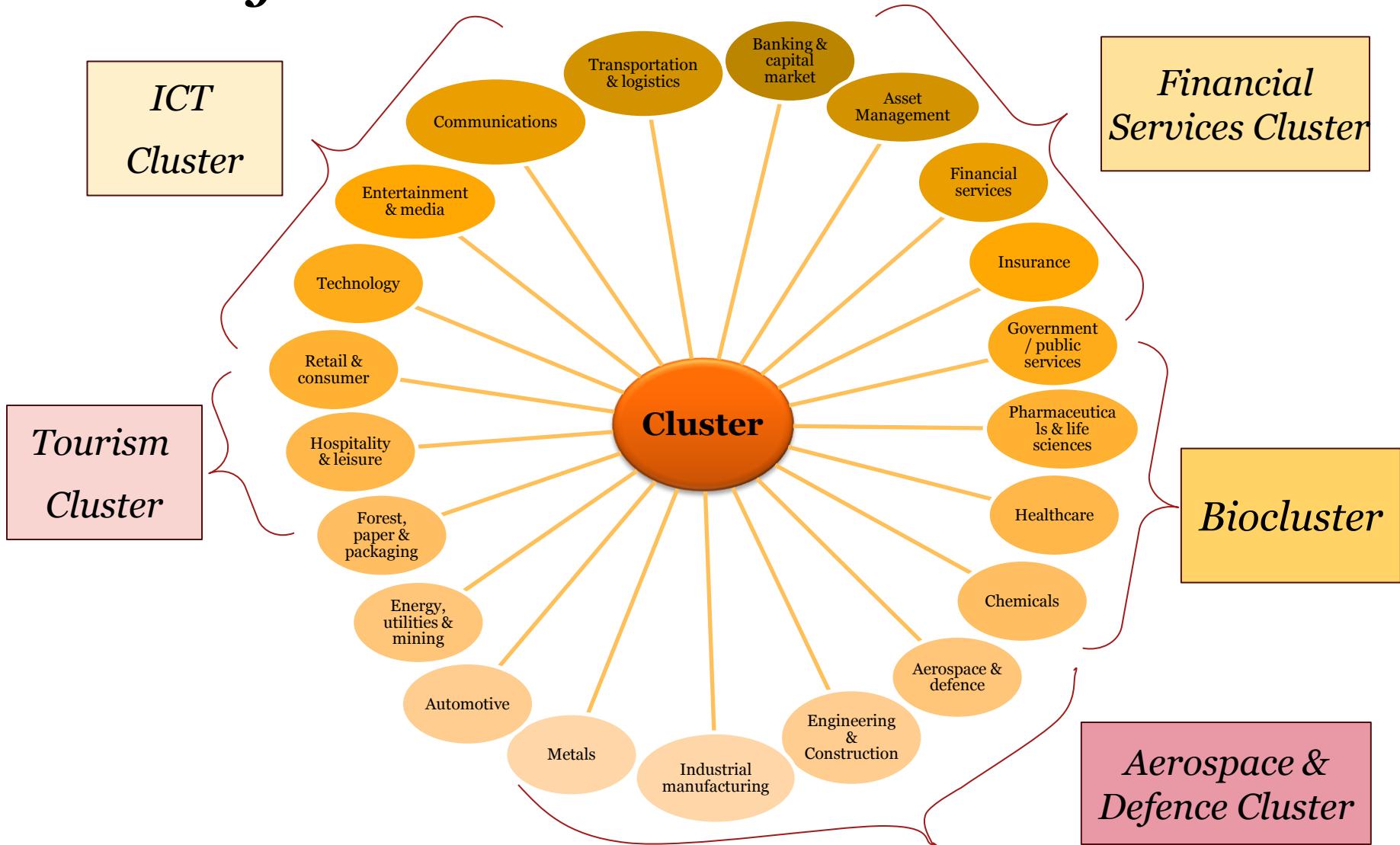
The “New Capitalism...” - a holistic approach on strategic resources ...



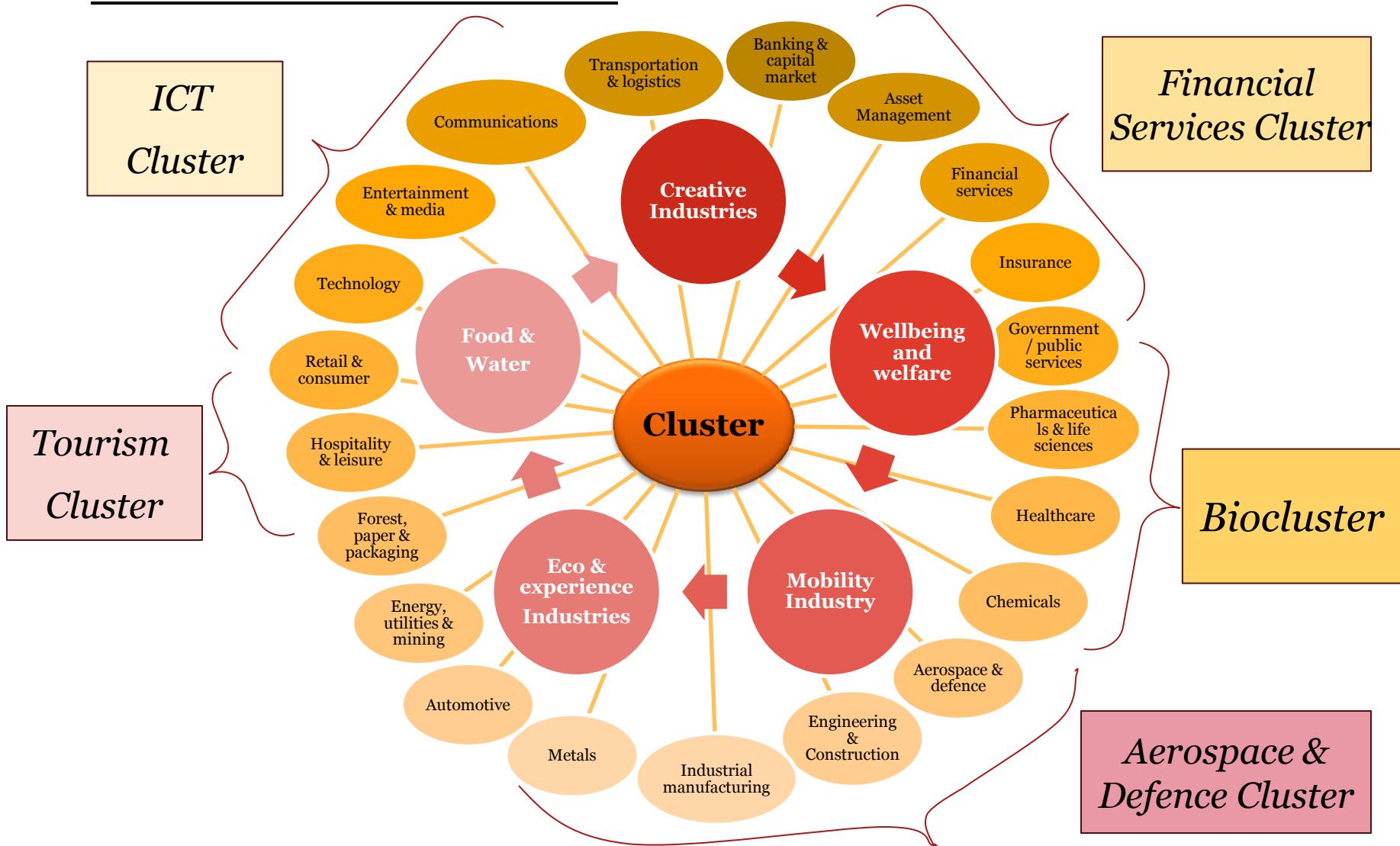
From traditional industries to...



Industry Clusters ... To ...

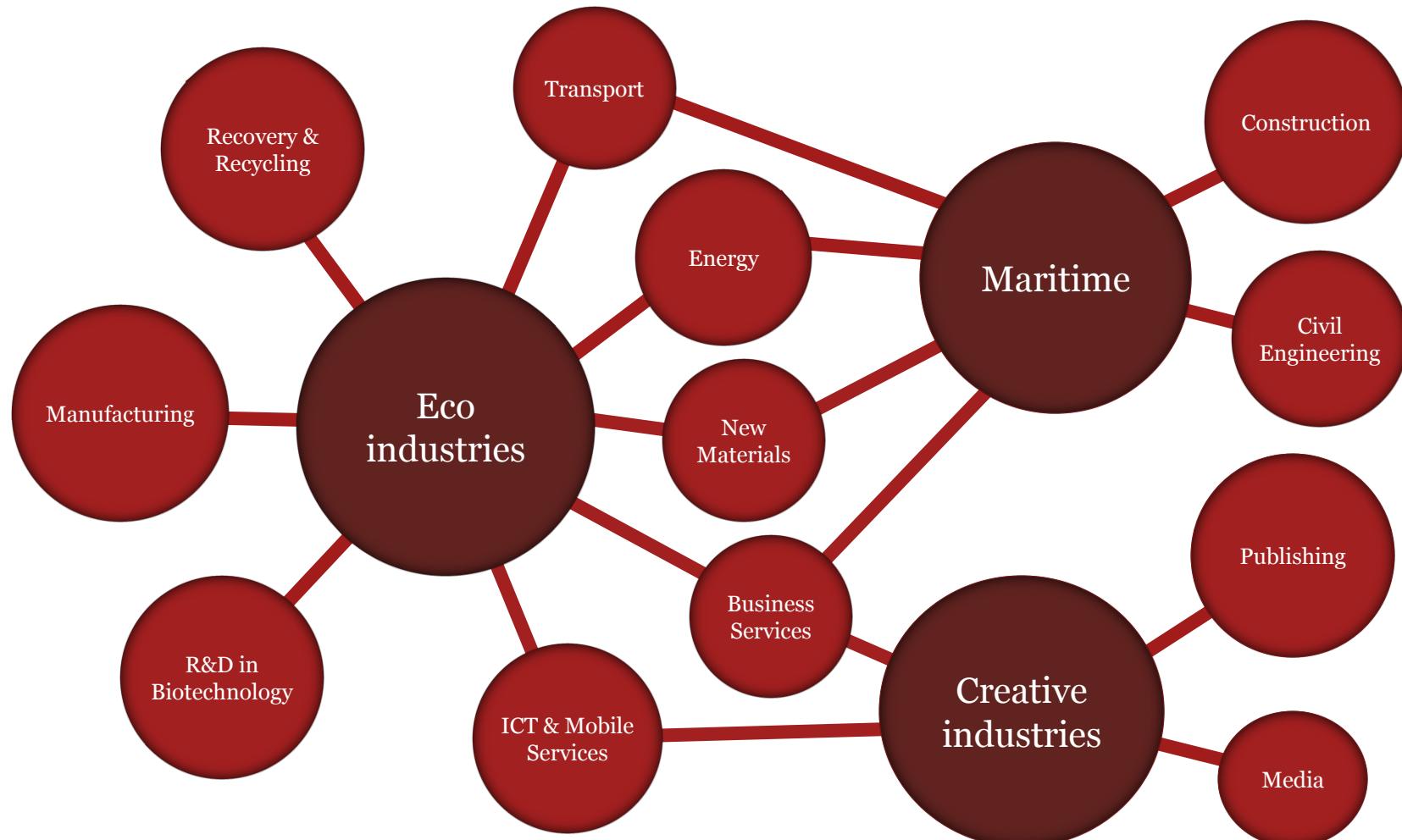


“Issue Based Industries”



New industry configurations

Identified based on financial transactions between firms



Emerging Industries

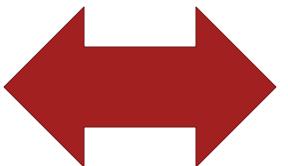
*...and Service
Innovation...*



New emerging industries

List of “new” industries identified

- Creative Industries
- Eco I
- Experience I
- Food & Water I
- Maritime I
- Mobility I
- Personalised Medicine I



Enabling Industries

- **Finance**
- **Business and Management Services**
- **ICT & Mobile Services**
- **New Materials**

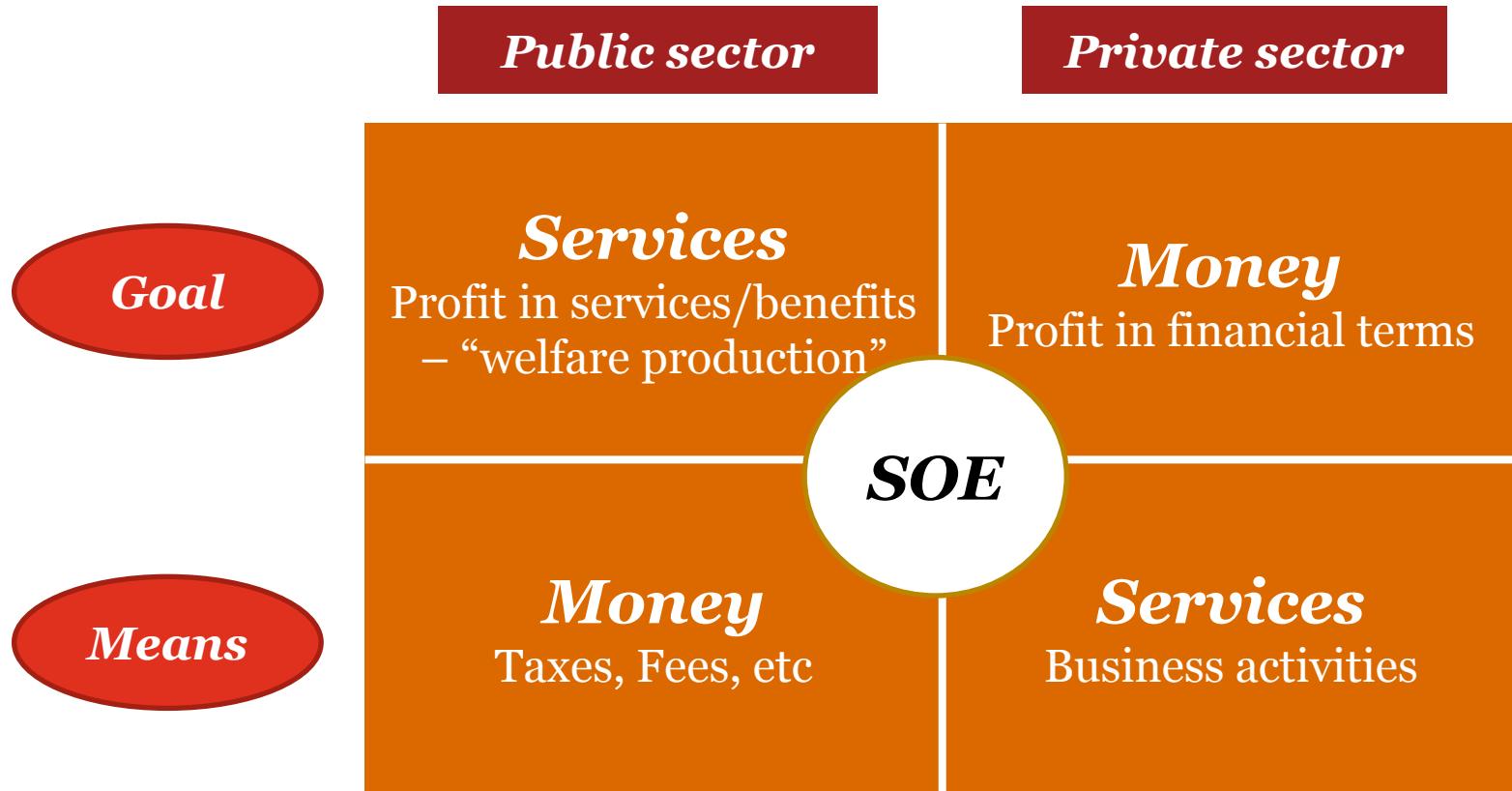


How do we get there?

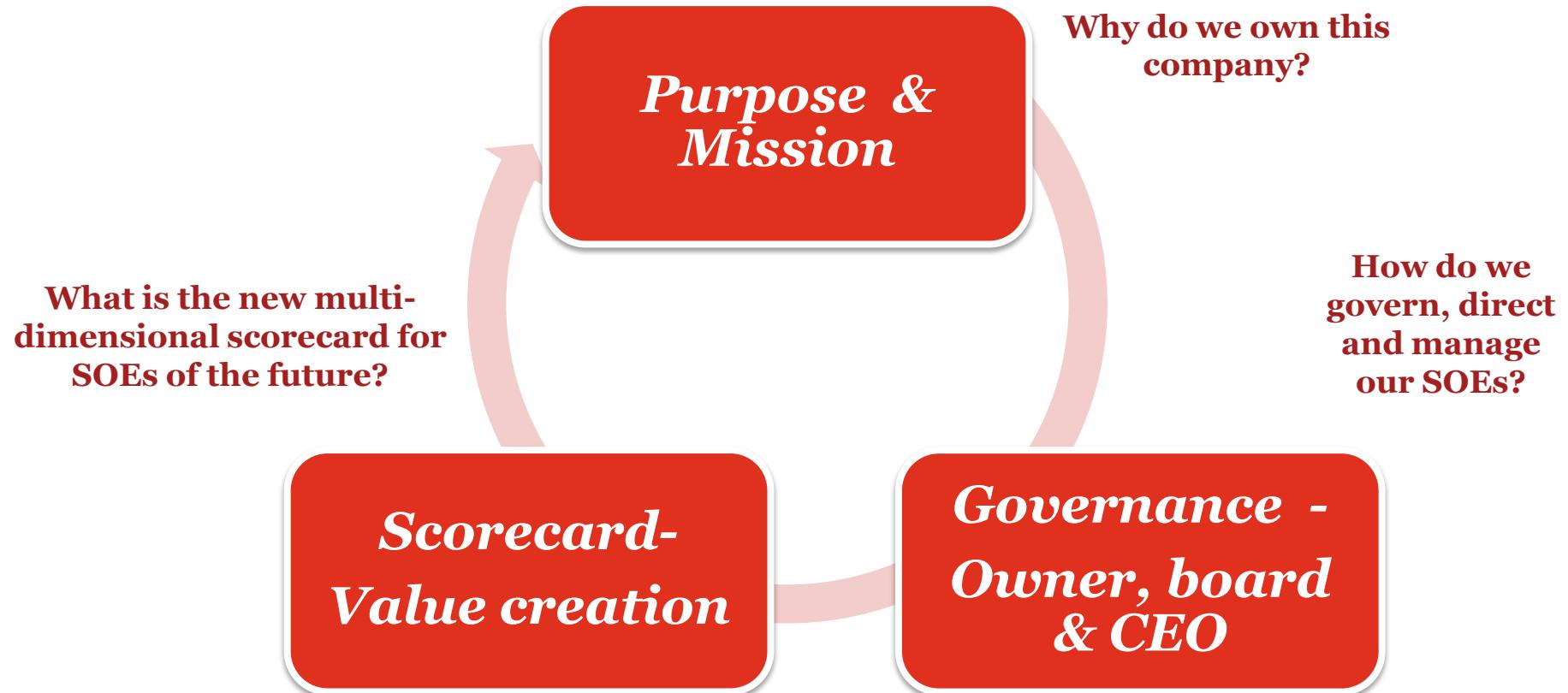
- State Owned Enterprises (SOE) -a vehicle for transformation and innovation
- Moving towards international standards in accounting - IPSAS

4

Private versus Public – a question of logic...



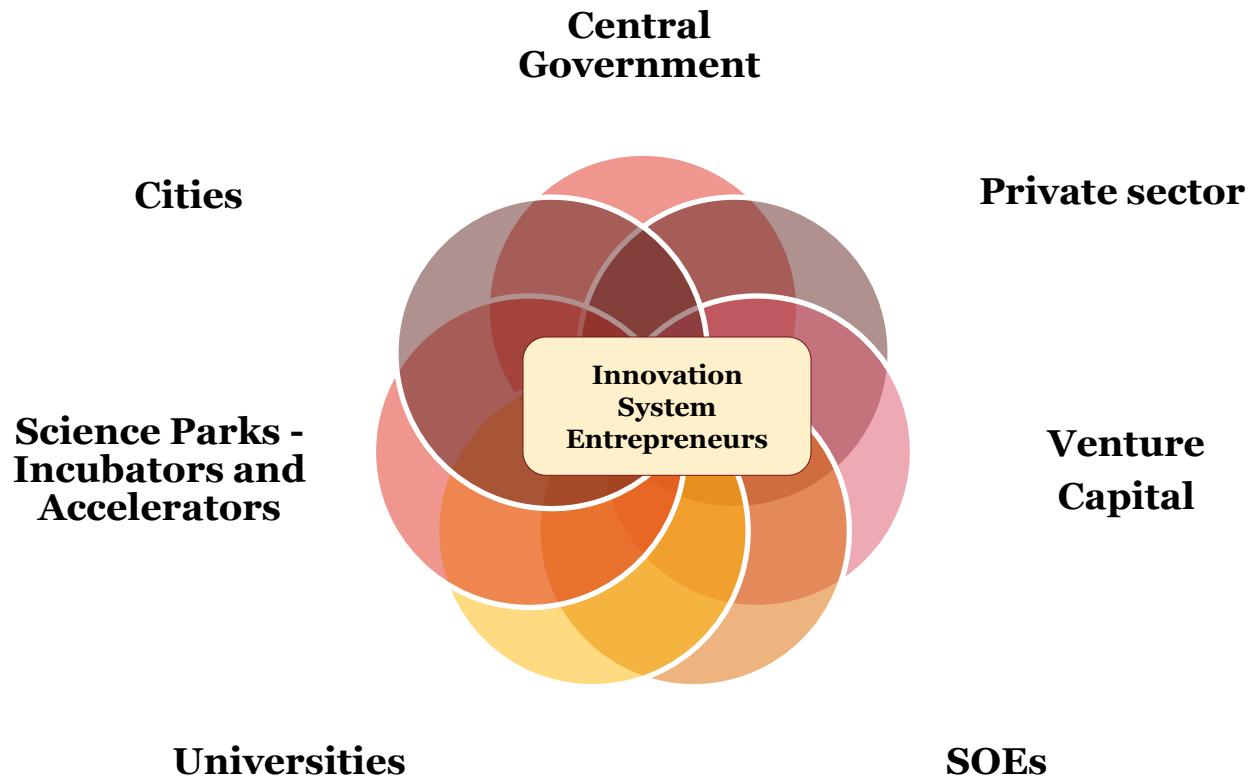
Active ownership & corporate governance



Scorecard of the Future for SOEs?

Growth Financial capital FI RoI	Sustainability Environmental capital (energy, transport, etc)	Job creation Social capital
Innovation Industry process capital	Public Service Citizen and welfare capital	

Next Generation of Innovation System - Multi stakeholder perspectives



A holistic approach

Goals by 2020

Double GDP capita

Become a "high average income country"

Achieve "high human development"

Become internationally competitive

Basic infrastructure in both rural & urban areas

Minimum unemployment rate

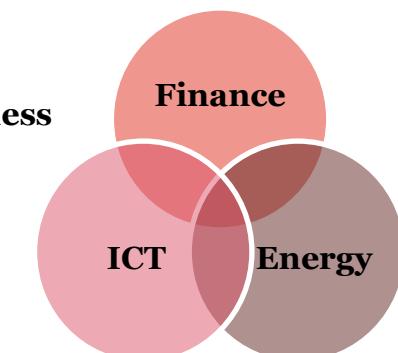
Regional commercial centre

Prototyping Industries

Entrepreneurship

Sustainable energy

Agri-business



Light & food industries

Electronics

Mobility

Tourism

Prototyping Projects

Stakeholders

Government

SOEs

Cities

University

Private sector

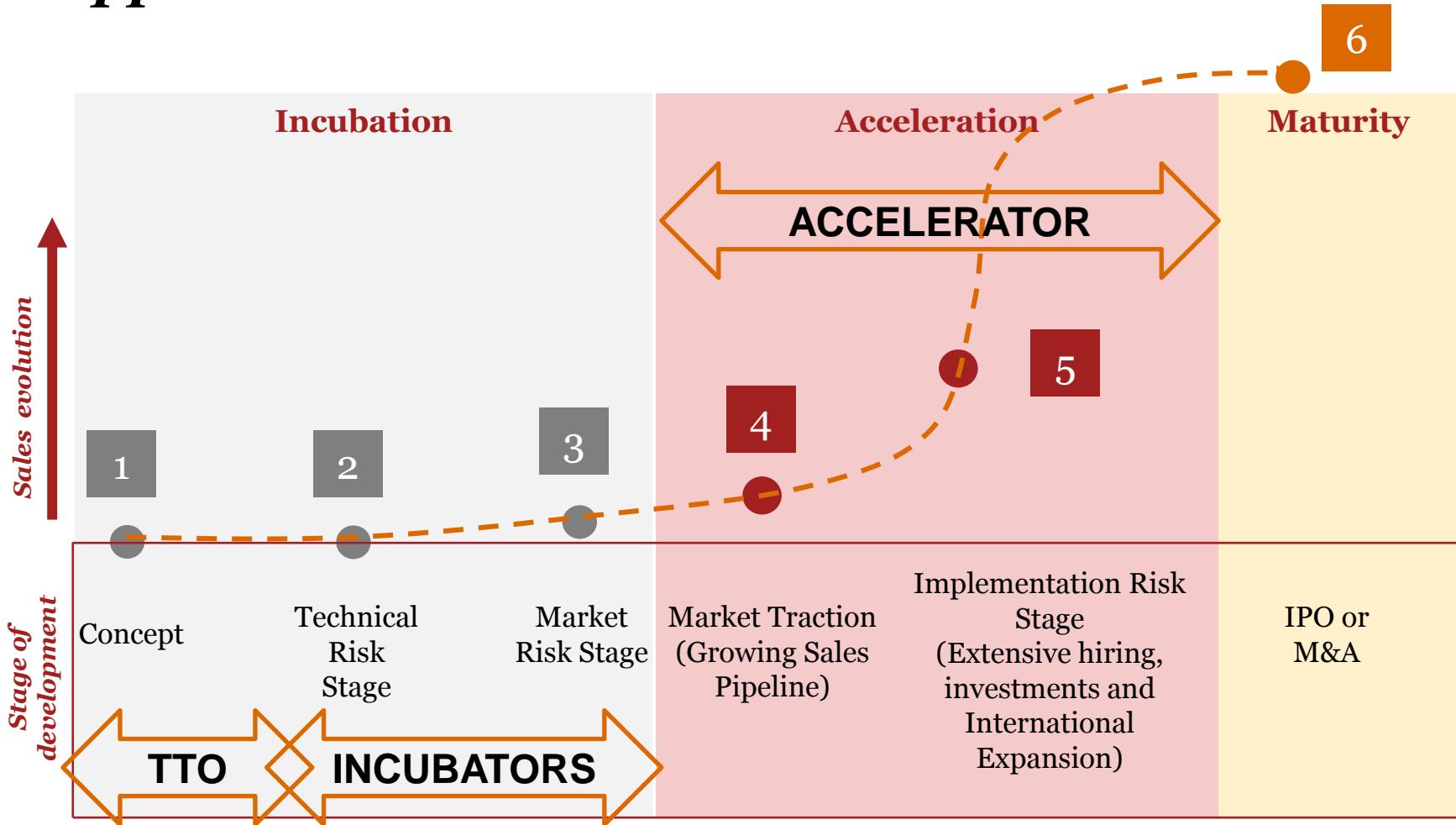
Not for Profit

Citizens

PwC's Accelerator “Mission statement”

**Assist fast growing companies with solid market traction
to accelerate rapidly and become global leaders through
PwC's worldwide network and extensive competences**

A Good Eco- System requires strong Acceleration support



PwC's Accelerator “Industrial Focus”

Smart technologies

Ecotechnologies, Smart grid, Innovative energy, Innovative material and processes, etc.

Digital Life

Social networking, Gaming, Datanomics, Infrastructures, etc.

Mobility

Infrastructure & Telecoms, Software applications, Payment, Automotive technologies, etc.

Cloud

Consumer internet, Enterprises 2.0, Data storage, SaaS, etc.

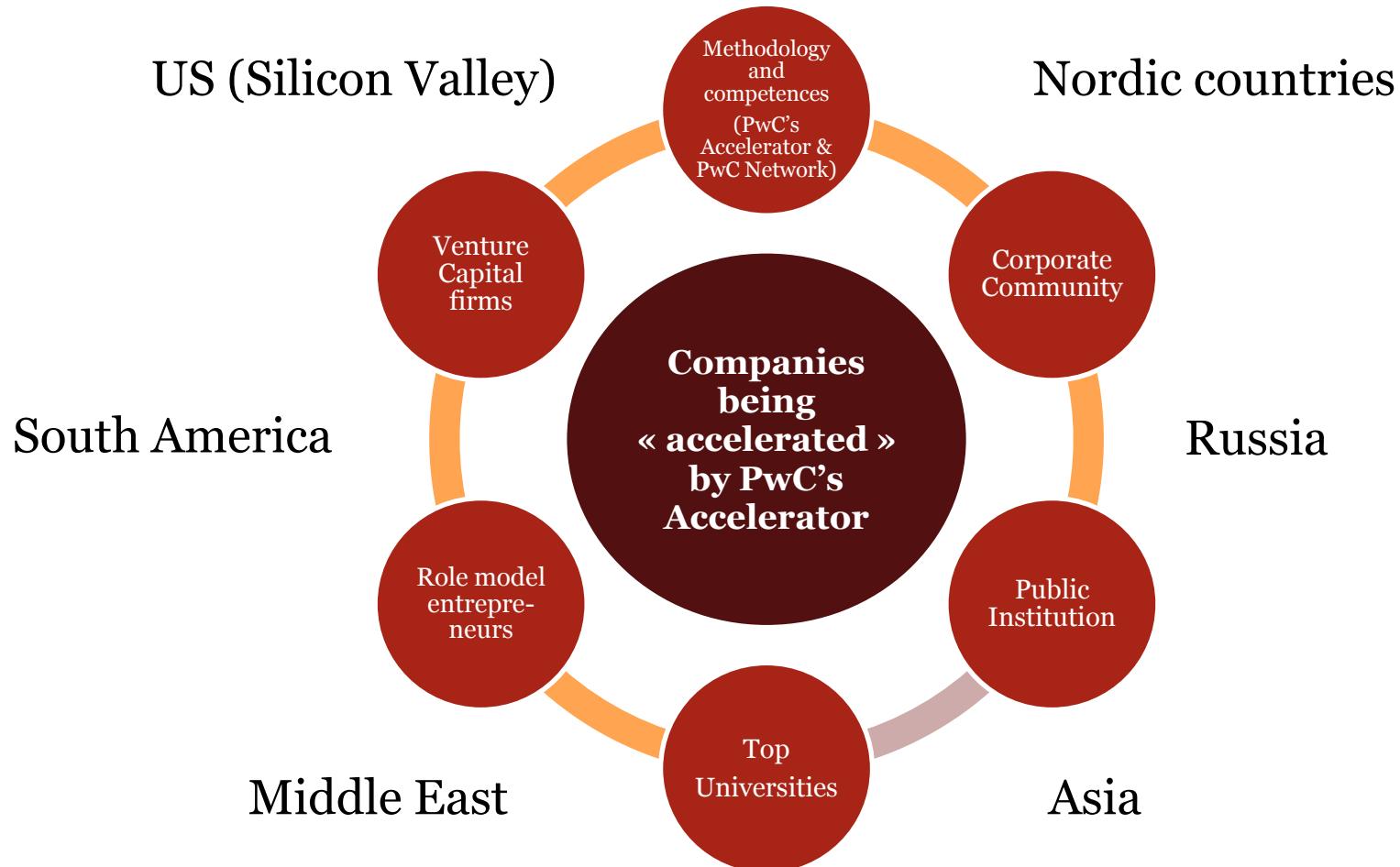
Health and well being

E-Health, Diagnostics, Bio IT, Medical device, etc.

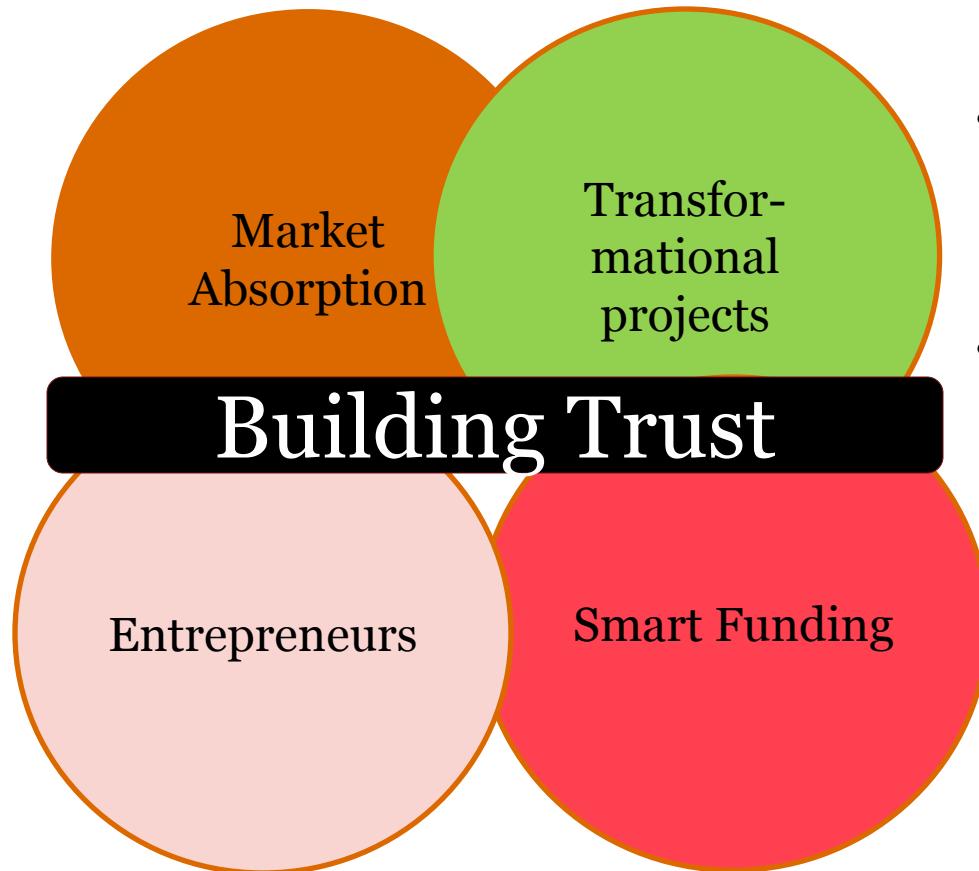
Innovative financial services

E-Payment, Peer to peer lending, New Financial Services models, etc.

PwC's Accelerator "Eco-System"



5 key challenges for accelerating Innovation



- Good innovation supply is now available on most continents but...
- Making Europe a market place for Innovation requires
 - ✓ New innovative projects
 - ✓ Entrepreneurs
 - ✓ And funding

New Policy requirements for a smart inclusive and sustainable growth

- **Smart Transformation** rather than Specialisation
- **Market Access**
- **Regional Innovation Absorption capacity**
- Demonstrating the value and impact of **Key enabling Technologies with large scale demonstrators**
- **Service Innovation** as a key driver for transformation
- **Entrepreneurs** and leaders who will make the growth of the region
- **Funding** at each stage of the growth Company life cycle
- **Internationalisation of High growth potential companies**

IPSAS as part of wider finance reform

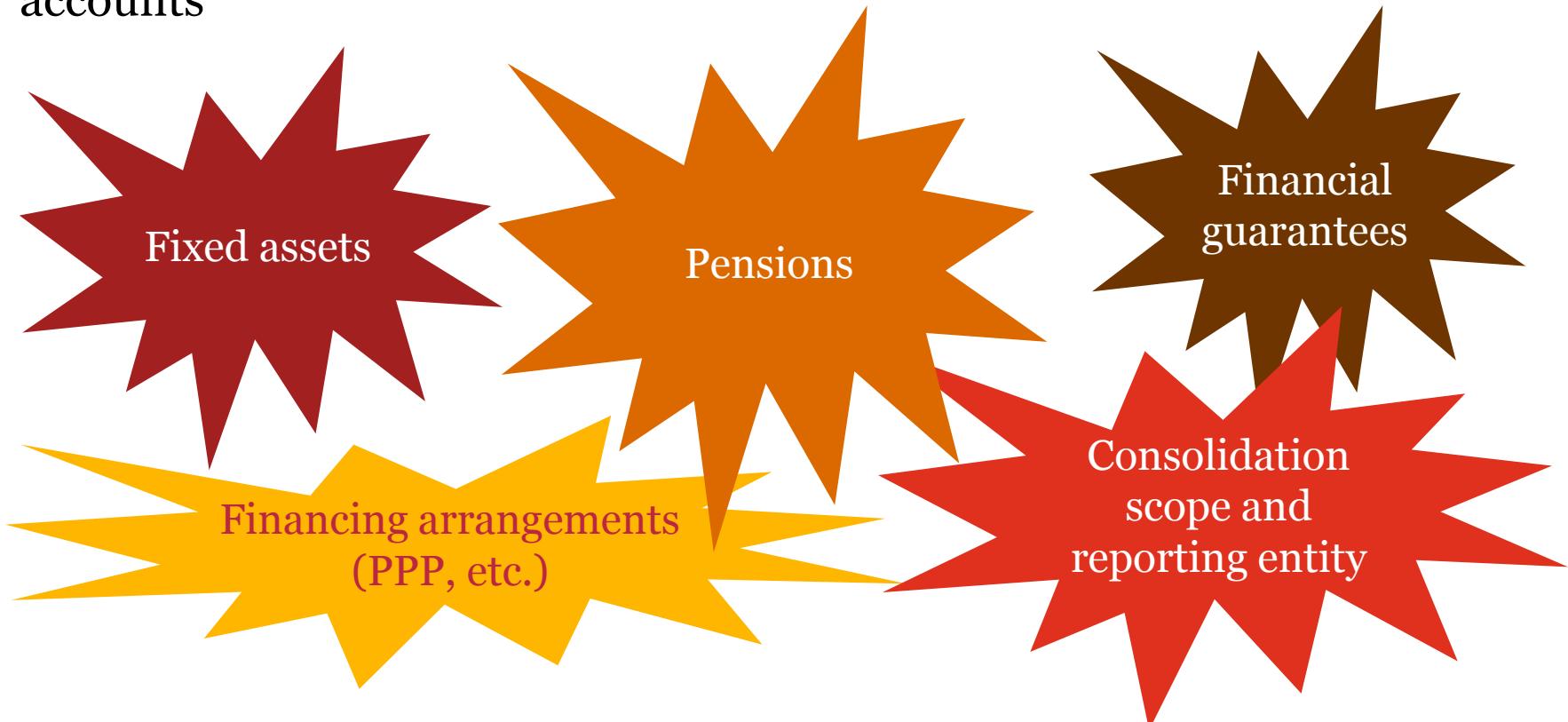


Sound and transparent public accounting (IPSAS) does not in itself lead to high-quality public finance management but is a **necessary component...**

The full benefits of IPSAS implementation can only be captured if put in the **wider context of a comprehensive finance reform** and used as a **catalyst for performance improvement**

Shortcomings in governments' accounting

Currently no comprehensive picture of the financial wealth of a State
Hidden liabilities, full long-term impact of decisions not reflected in the accounts



Adoption and implementation of accrual basis IPSAS adds value

<i>Direct effects</i>	<i>Indirect effects</i>
Transparency & accountability <ul style="list-style-type: none">• Government accountable to citizens & other stakeholders	Improved decision making <ul style="list-style-type: none">• Especially in areas with capital expenditure, e.g. Infrastructure
	Reputation <ul style="list-style-type: none">• A factor considered by rating agencies• Capital markets increasingly alert about government's financial reporting following the financial crisis



***Key for rapidly developing countries
and for economic growth and prosperity!***

Source: Bergmann, A. (2010), "International Public Sector Accounting Standards IPSAS", International Public Sector Accounting Standards Board

Strategic thoughts on Public Sector accounting and reporting

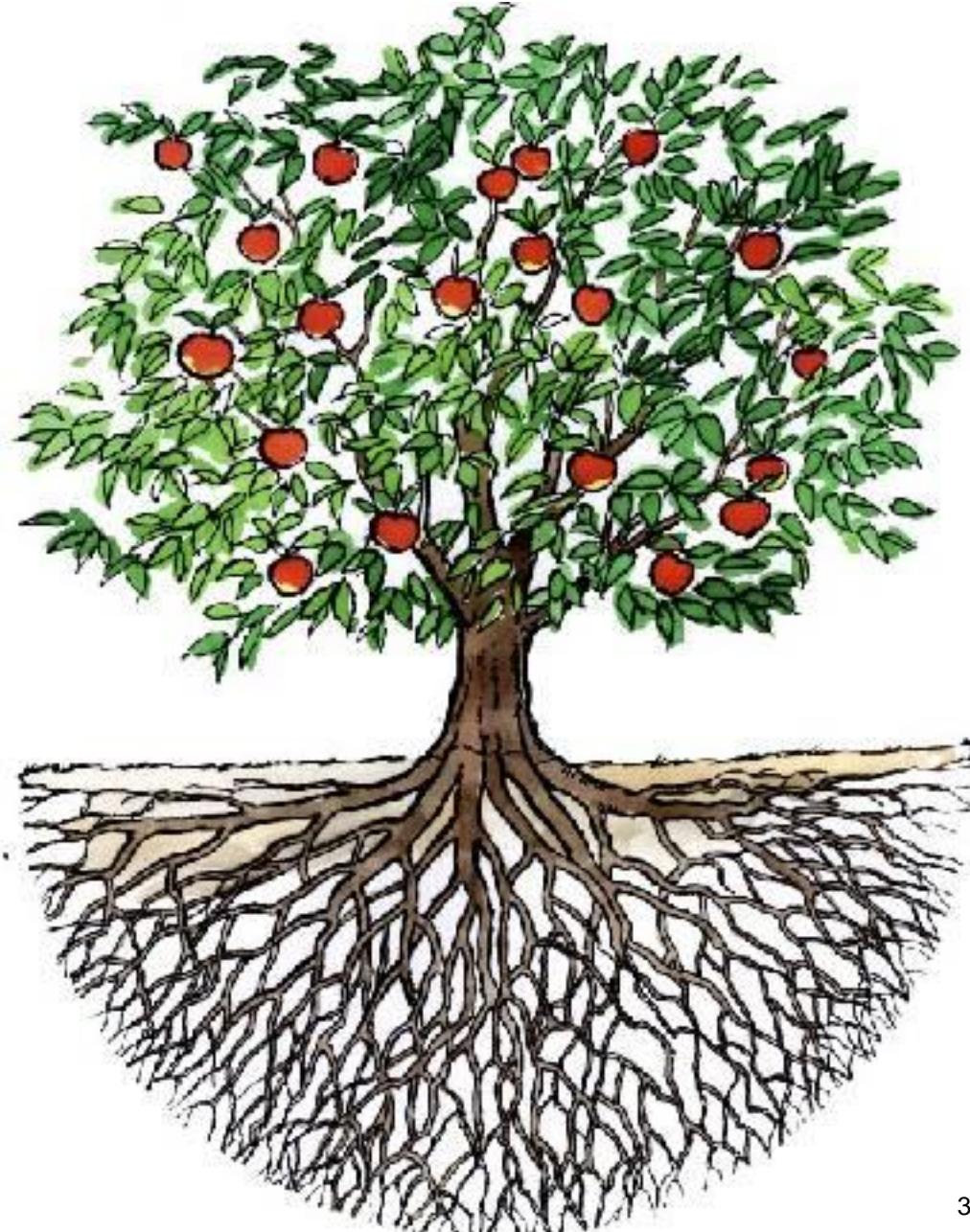
The benefits of integrated reporting

The scope of Public Sector reporting should be broadened in the future to include other areas of public interest –



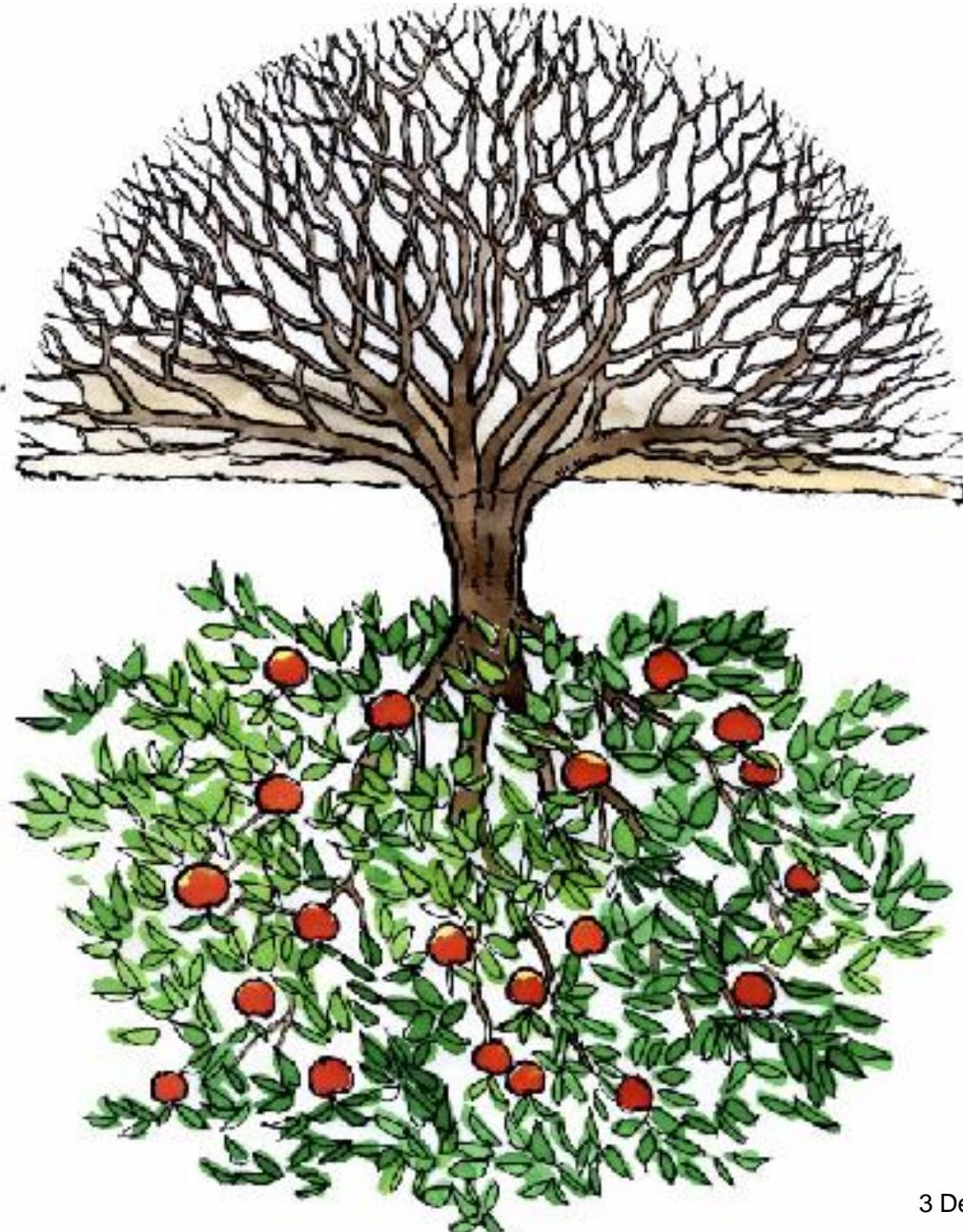
Shaping the future of Azerbaijan by tradition...

*How many
seeds are
there in an
apple?*



Shaping the future of Azerbaijan by innovation...

*How many
apples are
there in an
seed...*



Thank you



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